



Corporate Governance

For Prelims: Corporate Governance, Central Bureau of Investigation, Banking Regulation Act

For Mains: Corporate Governance and related issues

Why in News?

Chanda Kochhar (Ex-ICICI Bank CEO) **serves as a cautionary tale of the dangers of greed** in the corporate world.

- The [Central Bureau of Investigation \(CBI\)](#) has alleged that ICICI Bank had sanctioned credit of Rs 3,250 crore to the companies of the Videocon Group promoted by Dhoot in violation of the [Banking Regulation Act](#), **RBI guidelines**, and credit policy of the bank.

What is Corporate Governance?

- **About:**
 - Corporate governance, **which refers to the system of rules, practices, and processes** by which a company is directed and controlled, plays a crucial role in ensuring that businesses are run ethically and in the best interests of their stakeholders.
 - One of the key responsibilities of corporate governance is to **prevent corporate greed and ensure that businesses are operated in a responsible and transparent manner.**
 - By enforcing strong ethical standards and holding individuals accountable for their actions, corporate governance can **help to curb greed and protect the interests of shareholders, customers, and the broader community.**
- **Principles of Corporate Governance**
 - **Fairness:**
 - The board of directors **must treat shareholders, employees, vendors, and communities fairly** and with equal consideration.
 - **Transparency:**
 - The board **should provide timely, accurate, and clear information** about such things as financial performance, conflicts of interest, and risks to shareholders and other stakeholders.
 - **Risk Management:**
 - The board and management **must determine risks of all kinds and how best to control them.** They must act on those recommendations to manage them. They must inform all relevant parties about the existence and status of risks.
 - **Responsibility:**
 - The board is **responsible for the oversight of corporate matters** and management activities.
 - It must be aware of and support the successful, ongoing performance of the company. Part of its responsibility is to recruit and hire a CEO. It must act in the best interests of a company and its investors.

- **Accountability:**
 - The board must **explain the purpose of a company's activities and the results of its conduct.** It and company leadership are accountable for the assessment of a company's capacity, potential, and performance. It must communicate issues of importance to shareholders.

What are the Ethical Issues with Corporate Governance in India?

- **Conflict of Interest:**
 - The challenge of managers potentially enriching themselves at the cost of shareholders e.g., the recent case of former ICICI bank head Chanda Kochhar approved a loan to Videocon for a quid pro quo deal for her husband.
- **Weak Board:**
 - Lack of diversity of experience and background represents a major area of weakness for these boards. There have been questions about the board performing in the larger interests of the shareholders.
- **Separation of Ownership and Management:**
 - In case of family-run companies, the separation of ownership and management remains a key challenge in the majority of companies including some of India's top ones.
- **Independent Directors:**
 - Independent directors are partisan and are not able to check promoters unethical practices.

What are the Related Initiatives?

- The Ministry of Corporate Affairs (MCA) and [Securities and Exchange Board of India \(SEBI\)](#) is responsible for corporate governance initiatives in India. The corporate sector of India faced major changes in the 1990s after liberalization.
 - SEBI monitors and regulates corporate governance of listed companies in India through Clause 49.
- [The Companies Act, 2013](#) provides a formal structure for corporate governance by enhancing disclosures, reporting and transparency through enhanced as well as new compliance norms.

How Corporate Governance in India can be Improved?

- **Diverse Boards are better Boards:**
 - In this context, 'diverse' is all-encompassing, including gender, ethnicity, skills and experience.
- **Robust Risk Management Policies:**
 - Adoption of effective and robust risk management policies for better decision making as it develops a deeper insight into the risk-reward trade-offs that all Corporations face.
- **Effective Governance Infrastructure:**
 - Since the board is ultimately responsible for all the actions and decisions of an organisation, it will need to have in place specific policies to guide organisational behaviour.
 - To ensure that the **line of responsibility between board and management is clearly delineated**, it is particularly important for the board to develop policies in relation to delegations.
- **Evaluation of the Board's Performance:**
 - Boards should improve their **governance processes by addressing weaknesses revealed in board evaluations.**
- **Communication:**
 - Facilitating shareholder communication with the board is key. There is a need to provide a contact person with whom shareholders may discuss any issue.

UPSC Civil Services Examination Previous Year Question (PYQ)

Q1. In the light of the Satyam Scandal (2009), discuss the changes brought in corporate governance to ensure transparency and accountability. **(2015)**

Q2. What do you understand by the terms 'governance', 'good governance' and 'ethical governance'? **(2016)**

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